

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.: 6c

Date of Meeting: November 9, 2010

DATE: November 3, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Mark C. Griffin, Senior Real Estate Development Manager
James R. Schone, Director, Aviation Business Development
Diane Summerhays, Director, Aviation Community Development

SUBJECT: Resolution 3646, Second Reading and Final Passage. Des Moines Creek Business Park Street Vacation Acquisition and Right-of-Way Sale. CIP #C800046

Amount of This Request: \$3,200,000 **Source of Funds:** Airport Development Fund
CIP #C800046

State and Local Taxes Paid: \$0 **Est. Workers Employed:** 0

Total Project Cost: \$3,200,000

ACTION REQUESTED:

Resolution No. 3646, Second Reading and Final Passage. Declaring surplus and no longer needed for Port District purposes 2.84 acres of Port-owned real property located in the City of Des Moines, Washington, and authorizing the Chief Executive Officer to execute all documents necessary to transfer title of the property to the City of Des Moines for \$743,334 and amend the Comprehensive Scheme to reflect that the property is surplus to the needs of Seattle-Tacoma International Airport and is hereby deleted from Unit No. 18.

SYNOPSIS:

The Port of Seattle ("Port") proposes to acquire approximately 11.78 acres of abandoned streets within the DMCBP site. Nearly all the streets (11.43 acres) will be purchased from the City of Des Moines. A small, approximately 0.35-acre, cul-de-sac will be bought from WSDOT. Concurrent with the acquisition from the City, the Port will sell approximately 2.84 acres of the DMCBP site to the City and execute related easement and license agreements to allow for the City's widening of S. 216th Street and

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24th Avenue S., the southern and eastern boundaries of the site (see **Exhibit 1**). These roadway improvements are needed to fully develop the DMCBP site.

BACKGROUND:

From 1989 to 1993, the Port acquired approximately 77 acres of residential lots in the City of Des Moines as part of the Airport's Federal Aviation Administration (FAA)-approved noise mitigation program. Together, these lots are now referred to as the DMCBP site. Acquisition of the residential lots, however, did not include purchase of the surrounding streets. These streets total approximately 11.78 acres. This total includes 11.43 acres of City of Des Moines-owned streets, which are comprised of 7.68 acres of streets *dedicated* to the City as public rights-of-way during the platting process for the former homes and 3.75 acres of streets *deeded* to the City when the City annexed the DMCBP site from King County. WSDOT owns an approximately 0.35-acre cul-de-sac associated with its acquisition of right-of-way for the former alignment for the State Route 509 extension to Interstate 5.

Since 2005, the Port has worked cooperatively with the City to ready the DMCBP site for redevelopment, including preparation of a conceptual master plan ("CMP") with two development alternatives containing a mix of light industrial and commercial uses. The Port and City executed a First Development Agreement ("FDA") in July, 2005. Among other things, the FDA outlines the process for and the City's intent to vacate and surplus the existing streets within the DMCBP site.

In July 2008, the Commission authorized execution of the First Addendum to the FDA that provides for acquisition of the streets for an amount not to exceed \$3,850,000. Staff sought this authorization in anticipation of ground leasing the entire, assembled site to Majestic Realty Co., the firm selected through a competitive RFP process in May, 2008 to develop the site. Majestic withdrew from ground lease negotiations with the Port in October, 2008 as the economic recession took hold. As a result, the conditions required for completing acquisition of the streets under the First Addendum could not be met.

Since 2008, the City has invested nearly \$2 million in the planning and design of improvements to S. 216th Street and 24th Avenue S., the southern and eastern boundaries of the site, that are required to fully develop the DMCBP site. Based on this design work, the City needs approximately 2.84 acres of Port-owned land for the roadway improvements. The City also requests the Port's execution of a slope and utility easement and a temporary construction license related to the roadway improvements. The City's acquisition of the Port-owned land will improve its ability to secure federal and state funding for the planned improvements. The City hopes to start construction as early as 2012 if funding is secured.

Past sales of property acquired with FAA noise funds have required FAA approval of the sale. However, recent guidance from the FAA eliminates this requirement, because FAA regulations generally mandate disposal of all noise property.

The \$3,850,000 purchase price authorized by the First Addendum was based on a 2006 appraisal that valued the abandoned streets at \$7 per square foot (the First Addendum reflects a \$7.50 purchase price

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to account for the lag between when the 2006 appraisal was completed and execution of the First Addendum in 2008). Given the time elapsed since the 2006 appraisal, the Port obtained an updated appraisal that valued the streets at \$3 per square foot. The City disagreed with this valuation. The Port and City then agreed to obtain a second, joint appraisal and, per the terms of the FDA, to be bound by the valuation. The joint appraisal values the streets at \$6 per square foot. Using this value, the Port's payment to the City equals **\$2,986,428** (11.43 acres or 497,738 square feet multiplied by \$6 per square foot). The compensation that the City will pay the Port for its acquisition equals **\$743,334** (2.84 acres or 123,889 square feet multiplied by \$6 per square foot). The Port will deduct the amount the City owes from its payment to the City resulting in a net payment to the City of **\$2,243,094**. The slope and utility easement is mutually beneficial and will be conveyed to the City at no cost along with the temporary construction license. The acquisition from WSDOT will total approximately \$92,000 using the \$6 per square foot value.

The Des Moines City Council passed ordinances to vacate and surplus the City-owned streets at its September 30, 2010, meeting. At this meeting, the City Council also approved the "Second Addendum to the First Development Agreement Regarding Compensation for Dedicated and Deeded Rights-of-Way and Purchase of Right-of-Way Frontage" (the "Second Addendum") that contains the business terms of both the street vacation/surplus and the City's acquisition of the Port-owned property.

Commission approval of the action requested would entail the Port's execution of the Second Addendum, attached as **Exhibit 2**, and all related documents needed to complete the exchange of property with the City. Staff would also execute appropriate agreements with WSDOT to obtain ownership of its cul-de-sac.

After the exchange of property with the City is completed, staff anticipates negotiating a second development agreement with the City in 2011 that will address entitlement of the DMCBP site, the Port's/developer's contribution toward the planned roadway improvements, future traffic impacts fees, and other related items. Staff also expects a decision in 2011 on whether the City wishes to pursue an option agreement with the Port for a retail development on the southeast portion of the DMCBP site.

PROJECT JUSTIFICATION:

The Port needs to acquire all the abandoned streets to secure ownership of the entire DMCBP site. This acquisition, in tandem with the sale of the property to the City for the roadway improvements to S. 216th Street and 24th Avenue S., best supports the eventual ground lease and redevelopment of the DMCBP site. Port and City staffs agree that transfer of the properties at this time would benefit both parties.

PROJECT STATEMENT AND OBJECTIVES:

Project Statement: Acquire the existing abandoned streets on the DMCBP site to permit ground lease of the entire site to a development firm and sell the property needed by the City to construct the roadway improvements that will benefit the DMCBP project.

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Project Objectives: Complete the land assemblage of the DMBCP site. Sell the right-of-way land needed by the City. Implement the intent of the FDA and First Addendum between the Port and City.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work: Acquire approximately 11.78 acres of abandoned streets. Sell approximately 2.84 acres of property needed by the City.

Schedule: Closing with the City will occur within thirty (30) days of the Port’s execution of the Second Addendum.

FINANCIAL IMPLICATIONS OF PROPERTY ACQUISITION:

Budget/Authorization Summary:

Original Budget	\$3,850,000
Budget Savings	\$650,000
Revised Budget	\$3,200,000
Previous Authorizations this CIP	\$3,850,000
Current request for authorization	\$3,200,000
Total Authorizations, including this request	\$3,200,000
Remaining budget to be authorized	\$0

Project Cost Breakdown:

Acquisition costs	\$3,078,428
Outside professional services	\$12,500
Other	\$109,072
Total	\$3,200,000

FINANCIAL IMPLICATIONS OF PROPERTY SALE:

The Port acquired the property to be sold to the City of Des Moines for a total cost of \$901,002. Thus, the sale of the property for \$743,333 will generate a net loss on the sale of \$157,668. A loss on sale is expected in situations like this because the Port’s booked value of the property included the improvements (houses), demolition, restoration and soft costs.

Budget Status and Source of Funds:

The 2010-2014 Capital Budget and Plan of Finance include this project under CIP #C800046. Pursuant to the terms of the First Addendum, the Port deposited the \$3,850,000 previously authorized into an escrow account in October, 2008. The funds remain in the escrow account.

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Financial Analysis and Summary:

CIP Category	Revenue/Capacity Growth
Project Type	Business Expansion
Risk adjusted Discount rate	10-11%
Key risk factors	<p>The FAA must be reimbursed for a portion of the funds provided to acquire the DMCBP site at the time the Port “disposes” of the site (e.g., enters into a long-term ground lease with a developer). Based on a 2008 appraisal of the site, the repayment is currently estimated to be around \$11 million. This is a tentative estimate, because the actual repayment requirement and method could change based on the FAA reauthorization bill pending in Congress.</p> <p>The funds for the FAA’s repayment are anticipated to come from the ground rent to be paid by the firm selected to develop the site. Market conditions and other factors could delay the ground lease. The projected IRR/NPV will not be determined until a ground lease is finalized. However, should the projected return for the project fall below the targeted rate, it is anticipated that the fully assembled site could be sold and earn more than the Port’s costs.</p>
Project cost for analysis	N/A
Business Unit (BU)	Business Development
Effect on business performance	It is anticipated that the developer ground lease will result in positive NOI after depreciation.
IRR/NPV	The IRR/NPV for the overall DMCBP project has not been established. To arrive at the IRR/NPV, a comprehensive financial analysis of the overall project will be conducted as part of the ground lease negotiations that considers the acquisition cost of the streets and the ground rent to be paid by the developer. The Port’s projected overall financial return could be less than the targeted rate.
CPE Impact	None

TRIPLE BOTTOM LINE SUMMARY:

Acquisition of the abandoned streets will permit the eventual ground lease of the entire DMCBP site. The ground lease is expected to result in an increase in non-aeronautical revenue and an increase in NOI

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after depreciation. A 2006 economic impact analysis of the two conceptual master plan alternatives estimated the DMCBP project, at the full build-out, could result in 1,200 to 2,100 new permanent jobs and \$3.2 to \$6 million annually in new state and local tax revenue. The project would also involve the protection and enhancement of environmentally critical areas along Des Moines Creek near the western boundary of the DMCBP site.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- **Alternative 1: Do Nothing**

Neither the Port nor the developer would acquire the abandoned streets. This alternative would preclude ground lease and redevelopment of the entire DMCBP site and would not meet the objectives the City and Port have developed for this project. This is not the recommended alternative.

- **Alternative 2: Developer Acquisition**

The developer would acquire the abandoned streets. This alternative would preclude Port ownership of the entire DMCBP site and complicate its redevelopment. This option would also not meet the goal of offering a fully entitled site for development. This is not the recommended alternative.

- **Alternative 3: Port Acquisition**

The Port would acquire the abandoned streets. This alternative allows the Port to control the entire DMCBP site and best supports ground lease and redevelopment of the site. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Exhibit 1 - Site Map.
- Resolution No. 3646 (including Exhibit "A" Legal Description of Port-owned property).
- Exhibit 2 – Second Addendum to the First Development Agreement Regarding Compensation for Dedicated and Deeded Rights-of-Way and Purchase of Right-of-Way Frontage.

PREVIOUS COMMISSION ACTION OR BRIEFING:

11/02/2010 - Resolution 3646, First Reading. Public Hearing.

11/02/2010 - Commission authorized acquisition of all the abandoned streets within the DMCBP.

07/22/2008 - Commission authorized execution of the First Addendum.

02/27/2007 - Reviewed progress on the DMCBP project with Commission.

06/08/2006 - Staff briefed the Commission on the completed Conceptual Master Plan.

08/23/2005 - Commission authorized preparation of the Conceptual Master Plan.

06/28/2005 - Commission authorized the execution of the FDA.